

PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA

Item No.	7c
Date of Meeting	<u>November 2, 2010</u>

DATE: October 15, 2010

TO: Tay Yoshitani, Chief Executive Officer

FROM: Tammy Woodard, Senior Manager, Total Compensation

SUBJECT: Briefing – 2011 Salary and Benefit Resolution

SUMMARY

The Salary and Benefit Resolution delegates authority from the Commission to the Chief Executive Officer to direct the administration of compensation and benefits for the Port's non-represented employees. The resolution covers approximately 830 employees, or 55% of the workforce. The Port's total compensation philosophy has been to provide a pay and benefits program that is at or slightly above market to support retention and attraction of high-performing staff committed to achieving the Port's mission. The resolution covers only employees who are not represented by a collective bargaining agreement (CBA) although provisions of current CBAs are considered and do inform changes to the resolution.

While changes to the resolution vary from year to year, the 2011 resolution does not contain any substantial changes from the 2010 resolution.

The Salary and Benefit Resolution authorizes the Port to provide medical and dental insurance benefits for non-represented employees and permits sharing premium costs with employees. In an effort to contain increasing benefit costs, the Port initiated premium sharing in 2010 for employees on the Port sponsored medical plans. In 2011 the Port will significantly increase the portion of the premium that employees will pay. Some employees represented by a labor union are also covered by the Port sponsored medical plan and will also pay increased premiums in 2011. The Port is also changing the funding mechanism for the Premera medical and Washington Dental Service plans in 2011 to a self-funded model as a further cost containment step. These changes follow implementation in 2009 of co-insurance for employees covered by the Port's Premera plans. The changes to employee out-of-pocket health care costs are programmatic changes that have been factored into the 2011 budget.

The resolution also establishes the Pay for Performance (PfP) program as the manner for granting pay increases to non-represented employees and stipulates that the program will be administered under Port Policy HR-21, Salary Administration. The Port's Pay for Performance program is a merit-based program and pay increases are tied to employee's performance plans and appraisals. There are no automatic Cost of Living Adjustments (COLA) or step increases. The resolution further specifies that the Pay for Performance amount will be established by the budget process and implemented by Human Resources and Development (HRD). Funding for the PfP program is included in the Port budget. The 2011 budget includes approximately \$1.9 million to fund an average 2.5% PfP increase. The average PfP increase takes into account other employers' average anticipated merit-based increases, total expected increases (COLA plus step increases) at other public employers, and known or anticipated increases for employees covered by the Port's collective bargaining agreements.

Unlike the Port's merit-based approach, most public employers utilize a step-in-grade pay program where employees receive automatic pay increases from one step in their salary range to the next until their pay reaches the top step, or maximum, of their range. Other public employers also provide CPI-based COLAs that increase their salary range structure and employees all receive an equivalent pay increase.

The resolution contains the salary range structure; a listing of each of the Port's salary ranges identified by a grade along with the minimum, middle point, and maximum pay for each grade. Increases to the Port's salary ranges,

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which do not contain specific steps, are based on how the range structure currently compares to market as well as overall anticipated pay changes in the local labor market. Increases to the salary range structure do not result in any automatic pay increases unless an employee's pay is less than the new minimum of the range following a range structure increase. Below minimum adjustments resulting from salary range structure increases are generally minimal, less than \$20,000, and absorbed in the budget at the department level where necessary. We are recommending a 2% increase to the non-represented salary range structure 2011.

BACKGROUND

Developing Recommendations

Recommendations for the Salary and Benefit Resolution are based on many factors. These can include:

- changes to laws governing employee benefits,
- updates to Port policies that guide employee pay or benefits,
- estimates made in the late spring for Port budget planning purposes,
- market pay levels,
- pay increase plans of local public employers,
- anticipated performance increases of general industry employers
- input, as well as questions, from managers and employees throughout the year, and
- known as well as estimated cost-of-living adjustments (COLA) and stipulated increases contained in the Port's collective bargaining agreements.

While the resolution addresses pay and benefits for non-represented employees, policies and other documents also provide comprehensive guidance to HRD staff in administering these programs. Policies including Employee Performance Planning and Appraisal, Leave, Employment Practices, and Salary Administration for Salaried Employees expand on the provisions of the resolution and address various aspects of pay and benefits. The Pay Program also contains details beyond those included in the Salary and Benefit Resolution to guide pay administration. Benefit plan documents provide additional information on the Port's benefit programs.

Unique Aspects of the Port

The port is a public employer operating and overseeing major transportation hubs and industrial facilities (the airport and seaport) and is thus different from other public employers that deliver services to the citizens who support it. The Port also manages a large construction program as part of its activities and is a major economic engine for King County and the region because of its role in preserving and creating economic opportunities and family-wage jobs. In addition to being a government the Port is a business, and its most valuable asset is its skilled and motivated work force.

Given the nature of the aviation and seaport businesses, a significant number of the Port's employees perform highly technical and often specialized work. The Port's business requires a variety of engineers, including specialists in runway pavements and pier design, and environmental specialists with the knowledge and ability to work collaboratively with other agencies and stakeholders on major remediation projects. The Port requires employees skilled in operating a major international airport and a seaport with both container and cruise businesses, as well as writing and overseeing the many grants the Port receives. These skill sets are not typical of other local governments in the area. Port employees also perform work that is more general in areas like marketing, real estate management, construction management, legal, accounting, and public affairs. These employees are also somewhat specialized because of their knowledge of global aviation and/or maritime sectors, or of industrial real estate. More than 100 employees manage the Port's information and communication technology systems, including various billing systems and the flight display systems at the airport. Even in today's economy, assembling, training, and retaining this broad array of talent can be a challenge. The national unemployment rate is 9.6%. Many Port jobs require college degrees, and the national unemployment rate for college graduates is 4.4%, less than half the overall average.

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As stated in the summary, the Port's pay program for non-represented jobs is unique when compared to most public employers. Public employers often have pay structures that include established 'steps' within each pay range and employees pay automatically progresses from one step to another at established time intervals. Steps within a pay range are typically set at determined intervals (e.g. 2.5% or 4%) and employees often receive step increases at the beginning of the year until their pay reaches the top step in the range. When the ranges in these structures are adjusted, generally as a result of COLA increases, all employees receive a pay increase equivalent to the increase in the ranges. COLA increases are in addition to step increases employees receive. Public employers often utilize one pay structure for all their jobs, both represented and non-represented.

The Port's non-union workforce, however, does not receive COLAs or step increases. Employees are typically hired at a starting pay rate between the minimum and middle point of the range. Their pay progresses through the range based on Pay for Performance increases tied to their performance evaluations. The earned average PfP increase of the Port's non-represented employees is often less than the automatically granted combined COLA and step increases that employees at other public employers receive. The Port's 2010 PfP increase is currently averaging 3.8%. In 2010 King County employees received 2% COLA increases plus step increases of 2.4% to 7.2%. City of Seattle employees received 2% COLA increases plus 4% step increases.

Considerations for 2011

The varied and distinct nature of the Port's airport, seaport and real estate business, together with the work these businesses require, inform recommended changes to the resolution each year. There are also factors unique to specific years that warrant consideration when developing recommended changes to the resolution. For 2011 notable considerations are a substantial increase to the employee medical premiums and the expected increases to both Port and employee contributions to State retirement plans.

In 2010, the Port implemented premium sharing for all employees covered by Port sponsored medical plans following plan design changes in 2008 and 2009 that increased employee costs for medical care. In 2011 the Port will convert the Premera medical and Washington Dental Service plans to self-funded plans. These changes are expected to reduce the 2011 health plan cost increases by about 9%. Next year employees covered by the Port sponsored medical plans will also pay a larger portion of the monthly premiums. Employees pay, on average, 5% of the medical premiums this year. The actual amount each employee pays is dependent on the medical plan they select, whether they cover dependents, and if they met the 2009 Wellness Rewards Program goal. In 2011 the employee premium share will increase by more than 80% and range from \$16.22 to \$348.34 per month, depending on the plan they select, the dependents they cover, and whether or not they achieved the 1000 point 2010 Wellness Reward Program target.

RECOMMENDATIONS FOR 2011

Summary of Recommendations

Recommendations for 2011 will include

- a few wording changes to clarify definitions and other provisions,
- an updated 2011 holiday schedule,
- a reduction to the Paid Time Off (PTO) accumulation limits, and
- a 2.0% adjustment to non-represented salary ranges.

BACKGROUND ON RECOMMENDATIONS

Wording Changes

Each year Human Resources and Development (HRD) staff track questions and comments from managers and employees about information contained in the resolution. HRD staff also continually monitors policies and practices to ensure the Salary and Benefit Resolution remains consistent with them. Wording changes will be recommended

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to help align policies and practices with the resolution and add clarity to several areas of the resolution. The resolution will also include the 2011 holiday schedule and a reduced PTO accumulation limit that is consistent with plans implemented along with the PTO program in 1999.

Salary Ranges

HRD staff reviews and analyzes updated pay data from published salary survey sources each year to assess how well Port non-represented salary ranges compare to market. We compare average actual pay for a job to the middle point of the job's salary range to determine how well a job compares to market. We combine data on all jobs to determine how well our structure of salary ranges compares to market. We use general industry data in most cases, which includes both public and private sector data, since we recruit employees from, and lose them to, employers in a variety of industries. We do use available data specifically from public employers when the work is unique in the public sector. For 2011 we are utilizing data from 20 published salary surveys to update market data on 272 (49%) non-represented jobs. Our market analysis indicates that all non-represented salary ranges together are currently 1% below market.

Actual pay data is combined with published data about anticipated pay changes from other employers to help inform recommended salary range changes. This year we are utilizing four salary planning surveys in addition to pay increase projections contained in salary surveys. These surveys indicate an anticipated 2.9% average pay increase for 2011.

Data we gather from local public employers regarding their anticipated pay changes also helps inform recommended salary range adjustments. We have requested data from eight local public employers. To date we have received the following data indicating that pay increases at local public employers may vary considerably. Actual increases at these organizations may not be finalized until late November.

	COLA	Step	Total
King County	Not yet known	2.4% to 7.2%	2.4% to 7.2%
City of Seattle	Not yet known	4%	4%
City of Kent	0	5%	5%
City of Everett	0	2.9% to 8.9%	2.9% to 8.9%
City of Renton	Data not yet received	Data not yet received	Data not yet received
Pierce County	2.5% proposed	5% to 7%	7.5% to 9.5%
City of Bellevue	0	5% maximum	5% maximum
City of Redmond	1%	0% to 5%	1% to 6%
City of Tacoma	0	0	0
City of Federal Way	0	4.5% to 6.2%	4.5% to 6.2%
Port of Tacoma	Not yet known	Not yet known	Not yet known

We also consider how pay for employees in the Port's represented jobs is expected to increase when formulating a range adjustment recommendation. We expect represented Port employee's pay to increase between 2% and 6% based on provisions of current collective bargaining agreements (CBA). Many CBAs include rates not yet determined for 2011.

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We will be recommending an increase of 2.0% to the Port's non-represented salary ranges for 2011. Implementing a range adjustment in 2011 that is less than the average market pay increase projections may result in retention and hiring challenges if hiring activities in the local labor market increase substantially before the end of 2011. The increase in employee medical premiums will also contribute to our total compensation package (pay and benefits) being less attractive than it currently is. The current economic outlook is still uncertain, and we need to be aware that some skill sets (e.g. experienced engineers and some accounting specialties) remain in high demand.

CONCLUSION

Changes to Salary and Benefit Resolution for 2011 will be minimal and will not significantly impact employees. Related programmatic changes, particularly the increases in medical premium sharing, will have a much greater impact on employees. The 2% increase to the salary range structure will help our salary ranges remain close to market. Pay for non-represented employees is expected to remain close to the overall (public and private) labor market as a result of the 2.5% average Pay for Performance increase included in the 2011 budget. All changes, those to the resolution as well as the programmatic changes, continue to reflect a conservative approach to pay and benefits for non-represented employees.